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**Subject:** Meeting with Yaron Zussman

I had a long discussion with Yaron in NY last weekend.

We spent four hours together and covered a wide range of issues both specific to the US operation as well as for the business as a whole.

Key observations :

- First in regard to Yaron ; while he did not impress me from our first interactions, he was much more switched on and I began to see qualities and an understanding of the business which were not apparent from the outset ; that doesn't mean he is the right guy to lead our US business but rather to say he is making a much better impression than he did at the outset
- The recent experiences with Google and renewed push with corporates has exposed the reality that FST does not have the capability to deliver an enterprise solution today - it was clear that while he was careful not to be disloyal to his Tel Aviv colleagues, he did suggest that we do not have the full picture about the scale of teething and implementation issues they have had with the Google ; Google was a client of his previous company and he was getting inside reaction from his contacts inside the company - there seems to be more to what is going on at Google than we are being told
- They are in the first phase of an important discussion with Citigroup as you learned last week ; Yaron will spend all of this week on site with Citigroup to work through the specs of the planned pilot ; they are also in discussions with a number of additional Wall Street firms but have been holding those in a holding pattern pending the demonstration that they can handle the Citi implementation properly ; he also mentioned that one of the learnings for the large enterprises was that the entrenched bias and behaviour of the users was having an impact on the senior management's thinking about the software and the challenges of introducing it on a wider scale across multiple locations
- As an example he cited the current reactions at Citi where the initial tests have been with traders who have had a difficult time adjusting to the fact that they must look up at the camera rather than their normal behaviour which is to walk through the turnstiles with their heads down as they swipe their passes through - it seems a small point but in fact it is not as this required change has elicited significant negative feedback from users who need additional time and training in order to learn how to approach the cameras properly in order to increase acceptance rates which does have an impact on senior management as they look to decide on whether the system has long term application
- More generally, the business does not have the resources and skillset to take on significant enterprise clients and although the list of new business prospects seems to be growing nicely, as Yaron says, he finds himself in a position where he has to "flirt" with prospects as they do not have the bandwidth in Tel Aviv to handle new pilots and clients ; this is a natural result of getting more traction on the business development side but as you have already discussed in Tel Aviv will be the

key challenge for the management team - Yaron also made the interesting observation that it may not be that easy or quick to ramp up the Israeli R&D function as there was dearth of qualified people on the market.

- The senior management seems to be finally understanding the critical need to get ; they have been "high" on the promise of the technology which has to an extent blinded them from the reality that as important as the technology's attributes is the ability to deliver an end to end solution and the support required to install and maintain the software at client sites

- I asked Yaron for his opinion about the location and timing of a new CEO for the business and he made a number of interesting observations. He felt a new CEO should ideally be located outside of Israel and preferably in the US but also warned that if that was the decision taken it would create another in his mind significant issue - he said that the entire senior management in Tel Aviv is enormously loyal to Farkash and that Shazar and Moshe do not move without Farkash's approval - in his mind, the biggest issue with locating the CEO outside Israel was the real possibility that the combination of being an outsider to the business and being located outside Israel would result in the senior management continuing to "report" to Farkash even if he was Chairman and that it would take a very able and strong CEO to break this apart

- We spoke at length about the Integrators and how to break into that channel properly ; they have mispriced a few early installations which were sourced through small integrators who ended up losing money on the contracts - it has proven very difficult to get these integrators back on board - this is an important cautionary point as if the larger integrators do not make an acceptable margin on selling FST into their client bases, they will simply not do it ; he is spending time educating the large integrators with training modules and installations in their premises so as to motivate them to sell FST which he says is beginning to gain traction

- Yaron says that he is happy with the current size and quality of the US organisation and is only looking to add one additional pre-sales resource - when I pushed him as to why he did to recruit more people, he said that it would at this stage be counter productive as the execution and support is not yet there to support pushing additional new business through the channel

- I asked about the status of Parc Merced and 5 Times Square pilots and he explained that they were still trying to address the outdoor lighting issue in SF but felt they would be able to find a solution but that the NY pilot had ground to a halt as he had sent " 4 or 5 emails to Avery and his people and was getting no response at all".

- We discussed a much wider range of more detailed issues but the above are the key high level points - key takeaway is that the ability to scale up R&D in order to develop the skill set and bandwidth to deliver viable customer solutions is THE most important priority for FST

- I will get to Tel Aviv before the mid June board meeting in order to go through the agenda I had with FST senior management last week and develop a fuller set of actions and recommendations ahead of the board meeting

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